

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

BAY CITY HOUSING COMMISSION

Financial Statements

September 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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Bay City Housing Commission fiscal audit for the year ending September 30, 2006

The Government Accounting Standards Board (GASB) Statement #34 became applicable to the Bay City Housing Commission with its fiscal year beginning October 1, 2003. The purpose of this Statement is to provide more understandable and useful financial reports to a wider range of users than did the previous model of reporting. The Statement applies to the audited financial statements of all state and local governmental entities, including Public Housing Agencies (PHA) such as the Bay City Housing Commission.

A key requirement of GASB 34 is the *Management Discussion and Analysis* (MD&A). The MD&A is intended to provide the users of the financial statements with an objective, easily readable analysis of the PHA's financial activities based on currently known facts, decisions or conditions, with a discussion of the positive and negative aspects of comparisons with the prior year. The analysis responds to Paragraph 11, subparagraphs (a) through (h) of GASB 34, and is presented herein.

- (a) ***"A brief discussion of the basic financial statements, including the relationship of the statements to each other, and the significant differences in the information they provide."***

The Bay City Housing Commission utilizes the Enterprise model of reporting under GAAP (Generally Accepted Accounting Principals), aggregating its major programs into combined financial statements. Major programs are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Combined financial statements are presented first, with detailed combining program data (financial data schedule) presented in the Supplemental Data section of the audit. The Bay City Housing Commission's major programs are its Conventional Low-Rent Public Housing, the Public Housing Capital Fund, and the Section 8 New Construction programs.

Combined Balance Sheet - details the current (cash and cash-equivalent) and non-current (fixed) assets as compared to current liabilities (payables) and equity (contributed capital and retained earnings) as of the year-end (9/30/2006), or the total "worth" of the enterprise.

Combined Statement of Revenues/Expenses - the "income statement", details the revenues received through operations, grants, interest or other sources during the year, less expenses for wages, benefits, utilities, maintenance and depreciation. The difference between the two is the net profit (or loss) for the year.

Combined Statement of Cash Flows - details the flow and uses of cash from operations and capital/financing activities and adjusts the

year's beginning cash balance by the net cash flow to arrive at the end of year balance, which is reported on the Combined Balance Sheet.

The statement further reconciles the year end operating income (loss) to the net cash provided by operating activities.

(b) "Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial positions and results of operations required in (c), below, including these elements:

- *Total assets, distinguishing between capital and other assets,*
- *Total liabilities, distinguishing between long-term liabilities and other liabilities,*
- *Total net assets, distinguishing among amounts invested in capital assets net of related debt, restricted amounts and unrestricted amounts,*
- *Program revenue, by major source,*
- *General revenue by major source,*
- *Total revenues,*
- *Program expenses, at a minimum by functions,*
- *Total expenses,*
- *Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers,*
- *Contributions,*
- *Special and extraordinary items,*
- *Transfers,*
- *Changes in net assets,*
- *Ending net assets*

TABLE 1
COMPARATIVE ANALYSIS OF ASSETS, LIABILITIES & EQUITY

ASSETS	09/30/2006	09/30/2005	% + (-)
Cash & cash equivalents	\$ 926,047	\$ 1,240,291	(26%)
Receivables - net of allowances	\$ 12,224	\$ 34,283	(65%)
Due from other funds	\$ 8,270	\$ 5,891	41%
Inventory - net of allowances	\$ 136,801	\$ 139,301	(2%)
Tenant Security Deposits	\$ 90,000	\$ 90,000	nc
Deferred charges and other assets	\$ 83,491	\$ 81,317	3%
TOTAL CURRENT ASSETS	\$ 1,256,833	\$ 1,591,083	(22%)
Fixed Assets - net of accumulated depreciation	\$ 11,871,489	\$ 12,382,517	(5%)
TOTAL ASSETS	\$ 13,128,322	\$ 13,973,600	(6%)

LIABILITIES, EQUITY AND OTHER CREDITS			
Accounts Payable	\$ 74,843	\$ 69,214	9%
Due to other funds	\$ 8,270	\$ 5,891	41%
Intergovernmental Payables	\$ 79,861	\$ 80,290	(1%)
Accrued expenses/expenditures	\$ 11,578	\$ 11,786	(2%)
Accrued Wages/Payroll Taxes	\$ 35,852	\$ 35,559	1%
Tenant Security Deposits	\$ 145,965	\$ 134,721	9%
Deferred Credits and other liabilities	\$ 3,079	\$ 23,862	(87%)
TOTAL CURRENT LIABILITIES	\$ 359,448	\$ 361,323	(1%)
Long-term Debt/other non-current liabilities	\$ -	\$ -	Nc
Invested in Capital Assets, Net of Related Debt	\$ 11,871,489	\$ 12,382,517	(5%)
Unrestricted Net Assets	\$ 897,358	\$ 1,229,760	(28%)
<u>TOTAL EQUITY</u>	<u>\$ 12,768,874</u>	<u>\$ 13,612,277</u>	(7%)
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 13,128,322	\$ 13,973,600	(7%)

TABLE 2
COMPARATIVE ANALYSIS OF REVENUE, EXPENSES & CHANGE IN ASSETS

REVENUE	09/30/2006	09/30/2005	% + (-)
Tenant Rental Revenue	\$ 1,613,011	\$ 1,562,844	4%
HUD Operating Grants	\$ 2,073,320	\$ 1,997,882	4%
HUD Capital Grants	\$ 71,188	\$ 437,838	(84%)
Intergovernmental	\$ -	\$ -	
Interest Income	\$ 44,169	\$ 24,680	79%
Other Income	\$ 158,147	\$ 163,609	(3%)
TOTAL REVENUE	\$ 3,959,835	\$ 4,186,853	(6%)
EXPENSES			
Administration	\$ 604,723	\$ 585,909	3%
Tenant Services	\$ 256,375	\$ 230,996	2%

Utilities	\$ 601,801	\$ 562,314	7%
Maintenance	\$ 1,513,322	\$ 1,521,670	(1%)
Protective Services	\$ 48	\$ 348	(86%)
General Expenses	\$ 613,002	\$ 588,707	4%
Depreciation	\$ 1,213,967	\$ 1,139,474	7%
Other Expenses	\$ -	\$ -	
TOTAL CURRENT EXPENSES	\$ 4,803,238	\$ 4,629,418	4%
Non-Current Interest Expenses	\$ -	\$ -	
TOTAL EXPENSES	\$ 4,803,238	\$ 4,629,418	4%
REVENUE OVER (UNDER) EXPENSES	\$ (843,403)	\$ (442,565)	
BEGINNING EQUITY	\$ 13,612,277	\$ 14,054,842	(4%)
PRIOR PERIOD ADJUSTMENT	\$ -	\$ -	
ENDING EQUITY	\$ 12,768,874	\$ 13,612,277	(6%)

- (c) *"An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply state the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affect operating results for the year should be discussed."*

Assets/Liabilities (refer to Table 1 under (b) above)

The 26% decrease in Cash/Cash Equivalent was due to expenses incurred for capital improvements to Maplewood Manor, the Commission's Section 8 New Construction property that is not otherwise eligible for other capital grants from HUD. All capital improvements to the physical plant are paid for from the program's fund balance. When combined with 2006 net operating income from the property, just over \$600,000 was utilized for the completion of several property improvements including a new roof, replacement apartment patio doors and insulated window glass and the installation of a new energy efficient roof-top

HVAC unit.

The 65% reduction in Receivables results from approximately \$22,800 in Tenant Accounts Receivable (TAR) write offs of uncollectible accounts from prior years, the amount remaining being primarily Tenant Rents due in the audited year. This action was taken by the Board in preparation for the conversion to Asset Management so that individual properties would not be starting with TAR's above the minimum performance standard (7% of monthly rent roll).

The 5% reduction in Fixed Assets Net of Accumulated Depreciation has resulted from the delay in the obligation and expense of otherwise approved HUD Capital Fund grants as the Commission has worked through the application process for debt financing under the Capital Fund Financing Program (CFFP).

Revenue/Expenses (refer to Table 2 under (b) above)

The 84% reduction in the HUD Capital Grant does not reflect an overall reduction in the amount of annual Capital Funds allocated and awarded to the Commission each year, only the amount of those allocations that were actually requisitioned and received during the year. The large difference from the previous year is due to the lengthy process that has been undertaken by the Commission to seek HUD approval for debt financing that will use Capital Funds as the sole collateral and debt-service source (see discussion under (f) following).

The healthy 79% increase in Interest Income is a reflection of the overall national economy improvement and commensurate interest rate increases, as the Commission has made no other redistributions in its investment portfolio.

On the expense side the account suffering the most significant increase was Utilities for the second year in a row, at 7%. While utilities are still being funded on a 3-year rolling average basis, there is no longer any year-end adjustment for expenses that are either over or under those budgeted for at the beginning year. Utilities are also highly dependent on factors outside the control of the Commission, primarily climate and rates. While actual consumption did increase slightly over the previous year, significant rate increases, especially for natural gas and sewer rates, account for most of the increased expenditures. The Commission continues to make cost effective energy conservative improvements in its physical plant as funds can be budgeted.

The reduced Capital Fund revenue and increased Utility expenses were the primary reasons that resulted in a loss of \$843,403 after depreciation expense. However, utilizing the same criteria used by HUD under the Financial Assessment Subsystem (FASS) of the Public Housing Assessment System (PHAS) for the measure of net income, which does not consider either the Capital Fund or depreciation expense, net income contributed solely by operations was \$370,564. The Commission's overall FASS score for the fiscal year was 26 of 30 possible points (87%). The Commission's overall PHAS score for the fiscal year, including the Physical, Management and Resident

Satisfaction components, was 88 of 100 possible points.

- (d) *"An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future uses."*

The Bay City Housing Commission does not have multiple funds. All programs as discussed herein are contained within one General Fund with subsidiary ledgers maintained for separate program activities (Low Rent, Capital Fund and Section 8 New Construction). With the beginning of fiscal year 2007 (October 1, 2006) the Commission has converted to Project Based Budgeting and Accounting, which has expanded these subsidiary ledgers on a cost center basis, one for each property and one for a central office cost center.

- (e) *"An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity."*

This analysis is not required under the Enterprise model where the primary function of the entity is a business-type activity.

- (f) *"A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services."*

CAPITAL ASSETS AT YEAR-END

	9/30/2006	9/30/2005
Land	\$ 1,798,466	\$ 1,798,466
Buildings	\$ 11,224,223	\$ 11,224,223
Furniture and Equipment	\$ 2,649,017	\$ 2,643,052
Leasehold Improvements	\$ 14,972,403	\$ 13,525,673
Construction in Progress	\$ 90,810	\$ 840,536
Accumulated Depreciation	<u>\$(18,863,400)</u>	<u>\$(17,649,433)</u>
TOTALS	\$ 11,871,489	\$ 12,382,517

At September 30, 2006 the Bay City Housing Commission's investment in capital assets, including land, buildings, and furniture and equipment, decreased \$511,028 (-5%) from the prior year. Leasehold improvements increased by \$1,446,730 (11%) while Construction in Progress decreased by \$749,726 (-90%) from the prior year, reflective

of the Housing Commission's completion of capital improvements to its facilities in the audited year while debt financing arrangement interrupt the normal flow of capital improvements.

Capital Improvements made to the Public Housing inventory are accomplished through grant funding provided by HUD under the Capital Fund Program (CFP). The CFP and its predecessor programs have been separately authorized and funded by Congress since the early '90s, providing a stable, formula-derived annual allocation to PHA's specifically for these purposes. Capital Improvements made to the Section 8 New Construction inventory (Maplewood Manor) are self-funded by the Housing Commission through its Operating Income and Fund Balance.

No debt has been issued for any of these improvements in the audited year but is being arranged for in FY 2007. See discussion following.

DEBT

The only previous outstanding debt obligation of the Bay City Housing Commission (payments on the City of Bay City's General Obligation Bond issued for the construction of Maplewood Manor) was discharged in 2003. No debt, either long or short-term, encumbers the Housing Commission through the end of the audited year.

However, in 2004 the Housing Commission began participation in a Michigan State Housing Development Authority (MSHDA) sponsored debt program for capital improvements in its Public Housing inventory. Originally conceived as a state bond issue to raise funds to allow the Housing Commission to accelerate planned improvements over what could be accomplished with the current stream of funding, and to be repaid through the use of future annual CFP allocations, the program has since evolved into a more conventional loan program. At fiscal year end, a pool of 8 Housing Commissions, working in conjunction with MSHDA, had issued Requests for Proposal (RFP) and selected qualified firms for the financial and legal services relative to effectuating loans for this purpose. The Bay City Housing Commission's loan application for approximately \$3.2 million has been developed and submitted to HUD, with approval and loan closing expected to occur in early calendar year 2007.

- (g) *"A discussion by governments that use the modified approach to report some or all of their infrastructure assets..."*

Not applicable to business-type activities under the Enterprise model.

- (h) *"A description of currently known facts, decisions or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets)."*

PUBLIC HOUSING

Operating Fund: The Bay City Housing Commission is primarily dependent on HUD for the funding of operational expenses not covered

by operational revenue (limited by federal statute to no more than 30% of a family's adjusted household income). In 2006 the HUD Operating Fund Grant represented 47% of total Public Housing revenue. Therefore it is much more affected by federal appropriations than by local economic conditions.

Historically, the Housing Commission's fiscal year, coincidental with the Federal fiscal year (FFY), resulted in funding appropriated in any given Federal fiscal year not actually being available to us until our following fiscal year. In other words, appropriations approved for the Federal fiscal year beginning October 1, 2004 were not actually available for our use until October 1, 2005 due to the lengthy process housing agencies are required to go through to calculate their eligibility for subsidy, have HUD review it and determine pro-ration amounts and actually transfer the funds. This was the same for all housing agencies and only varied by their own individual agency's fiscal year. HUD, in effect, was funding all agencies on a local fiscal year basis after federal appropriations had been determined.

Beginning with FFY 2006, HUD modified this funding schedule and is now providing operating funds to all housing agencies on a January-to-December calendar year basis. In the transition year, the Housing Commission received 3 months of FFY 2005 funding (Oct/Nov/Dec) and then was awarded a full 12 months of FFY 2006 funding that began in January, even though only 9 months remained in our own fiscal year. The remaining 3 months of funding will be income recognized in our 2007 fiscal year. Complicating this scenario was the issue of the timing of HUD's determination of total need verses Congressionally approved appropriations, which was not completed by HUD until mid-2006. The final 2006 proration was 86% of eligibility.

For FFY 2007 HUD introduced a new Operating Fund formula based upon the results of a Public Housing Operating Cost Study completed by Harvard University. Designed to replace the 30+ year old Performance Funding System (PFS) formula, the new formula is an integral part of HUD's mandate for certain public housing agencies (those with more than 250 units) to convert to an Asset Management style of operations emulating private-sector property management (refer to the MD&A from the 2005 fiscal audit report). Agencies have five (5) years to complete the conversion, with those agencies scheduled to receive less funding under the new formula having that reduction phased in over the 5-year conversion period. The Bay City Housing Commission falls into that category, being scheduled to receive approximately \$174,000 per year less in funding under the new formula vs. the old, a 13% decrease. The 2007 phase-in reduction is calculated at approximately \$41,000.

As an incentive for agencies to convert to Asset Management earlier than required, HUD has provided a "stop-loss" safe haven. Upon demonstration of successful conversion to Asset Management requirements, agencies would have their subsidy reduction frozen at the phase-in period for the year of compliance. In the first year (2007) the stop-loss percentage is prescribed at 5%, with a current compliance documentation deadline date of April 15, 2007. The Commission has taken necessary steps to minimize its loss by

converting to Asset Management as of October 1, 2006 and is intending to submit compliance documentation by the April deadline.

However, the funding picture for 2007 is further clouded by proration.

As in 2006, federal appropriations do not appear to be sufficient to meet the formula-determined eligibility of housing agencies nationwide and, in addition to the formula reduction noted above, proration reductions that have been published by HUD for the first quarter of 2007 (Oct-Nov-Dec) are only 76% of formula eligibility and are expected to remain substantially the same for the balance of the year.

Obviously, significant budgetary pressures will face the Commission in 2007 and all avenues of cost reduction and income enhancement are being pursued.

Capital Fund: Also funded through the federal budget process, the Capital Fund Program (CFP) and its predecessor programs have been, since their inception, historically stable programs. However, the CFP has also been experiencing pressures resulting from competing national priorities and received a significant cut in the 2006 federal budget of just over 5%. This provided more incentive for the Housing Commission's planned participation in the Capital Fund debt-financing program being undertaken in the current year. A loan amount of \$3.2 million dollars over a 20-year term was applied for in September 2006, with closing anticipated in early 2007. Debt-service will be approximately 1/3rd of the 2005 CFP allocation, the maximum amount approvable by HUD. As future CFP allocations by HUD are reduced due to appropriation shortfalls, that percentage may increase but at least the physical improvement work will have been completed instead of deferred due to funding reductions.

SECTION 8 NEW CONSTRUCTION (Maplewood Manor)

Funding provided for this HUD Multifamily program is in the form of a Housing Assistance Payment Contract (HAP) that guarantees a certain 'contract rent', HUD paying the owner (the Commission) the difference between the income-based rents it receives from tenants and that contract rent. The initial HAP Contract with HUD for Maplewood Manor was for a period of 25 years with contract rents set high enough to cover both initial operations and debt service on the municipal bond that was issued to fund its construction. At the end of the initial HAP Contract in 2004 the Housing Commission applied for and received a 5-year renewal of the HAP Contract. Annually, the Housing Commission is eligible to apply for either a budget-based rent increase or an increase based on a HUD-published Operating Cost Adjustment Factor (OCAF).

The HAP Contract is designed to allow owners of Multifamily properties to fund their own Replacement Reserves for needed improvements and betterments required over the life of the facility and, such being the case, these developments are not otherwise eligible to participate in the Capital Fund Program available to Public Housing properties. The Housing Commission has been implementing planned improvements utilizing this source of funding and will continue to do so based upon its 20-year Capital Needs Assessment.

CONTACTING THE HOUSING COMMISSION'S MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Housing Commission's finances and to show the Housing Commission's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Douglas A. Rise, Executive Director, at the Bay City Housing Commission, 1200 N. Madison Avenue, Bay City, Michigan 48708, telephone number (989) 892-9581.

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Bay City Housing Commission
1200 N Madison
Bay City, Michigan 48708

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Bay City Housing Commission as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay City Housing Commission as of September 30, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

January 26, 2007

BAY CITY HOUSING COMMISSION
Statement of Net Assets
September 30, 2006

ASSETS

C-3017

CURRENT ASSETS

Cash & Cash Equivalents	\$ 1,016,047
Accounts Receivable (Net)	22,197
Prepaid Expenses & Inventory (Net)	<u>220,292</u>

Total Current Assets	\$ 1,258,536
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NON CURRENT ASSETS

Land	\$ 1,798,466
Buildings	11,224,223
Furniture, Equipment- Dwellings	2,107,114
Furniture, Equipment- Administrative	541,873
Leasehold Improvements	15,063,213
Accumulated Depreciation	<u>(18,863,400)</u>

Total Non Current Assets	<u>11,871,489</u>
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TOTAL ASSETS

\$ 13,130,025

BAY CITY HOUSING COMMISSION
Statement of Net Assets
September 30, 2006

LIABILITIES

C-3017

CURRENT LIABILITIES

Accounts Payable	\$ 74,843
Accrued Liabilities	35,852
Accounts Payable- Other Government	67,410
Compensated Absences	11,578
Tenants Security Deposit	145,965
Deferred Revenue	<u>3,079</u>

<u>Total Liabilities</u>	\$ 338,727
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Net Assets

Investment in Fixed Assets net of Related Debt	\$ 11,871,489
Retained Earnings	<u>919,809</u>

<u>Total Net Assets</u>	<u>12,791,298</u>
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<u>Total Liabilities & Net Assets</u>	\$ <u>13,130,025</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements.

BAY CITY HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended September 30, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 1,613,011	
Tenant Revenue-Other	56,262	
HUD Grants	2,073,320	
Interest Income	44,169	
Other Income	<u>99,519</u>	
<u>Total Operating Revenue</u>		\$ 3,886,281

OPERATING EXPENSES

Administrative	\$ 604,723	
Tenant Services	256,375	
Utility Expenses	601,801	
Ordinary Maintenance	1,513,322	
General Expenses	<u>603,077</u>	
<u>Total Operating Expenses</u>		<u>3,579,298</u>
<u>Operating Income (Loss)</u>		\$ 306,983

NONOPERATING REVENUE (EXPENSES)

Gain on Sale of Assets	\$ 2,366	
Depreciation Expenses	<u>(1,213,967)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(1,211,601)</u>
<u>Income (Loss) before Contributions</u>		\$ (904,618)

CAPITAL CONTRIBUTIONS

		<u>71,188</u>
<u>Changes in Net Assets</u>		\$ (833,430)
Total Net Assets- Beginning	\$ 13,612,277	
Prior year Audit Adjustments	<u>12,451</u>	<u>13,624,728</u>
 Total Net Assets- Ending		 \$ <u>12,791,298</u>

The Accompanying Notes are an Integral part of the Financial Statements

BAY CITY HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended September 30, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,695,334
Payments to Suppliers	(2,382,252)
Payments to Employees	(1,211,391)
HUD Grants	2,144,508
Other Receipts (Payments)	<u>146,054</u>
Net Cash Provided (Used) by Operating Activities	\$ 392,253

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(706,497)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (314,244)
Cash Balance- Beginning of Year	<u>1,330,291</u>
Cash Balance- End of Year	\$ <u>1,016,047</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (833,430)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,213,967
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	12,086
Prepaid Expenses	326
Changes in Liabilities Increase (Decrease):	
Accounts Payable	5,629
Accrued Liabilities	293
Accounts Payable- HUD	(240)
Accounts Payable-Other Governments	(12,880)
Accrued Compensated Absences	(208)
Security Deposits	11,244
Deferred Revenue	<u>(4,534)</u>
Net Cash Provided by Operating Activities	\$ <u>392,253</u>

The Accompanying Notes are an Integral part of the Financial Statements

BAY CITY HOUSING COMMISSION
Notes to Financial Statements
September 30, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Bay City Housing Commission, Bay City, Michigan, (Commission) was created by ordinance of the city of Bay City. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 24-2,3,4,5, 6, & 7 Low rent program	562 units
MI 28-8023007 New Construction	161 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Notes to Financial Statements- continued

Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the individual funds statements in the Financial Data Statements, however, are eliminated on the combined Statement of Net Assets.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 171,903
Petty Cash	300
Savings Accounts	90,000
Cash Equivalents, below	<u>753,844</u>
Financial Statement Total	<u>\$ 1,016,047</u>

Notes to Financial Statements- continue

Investments:

U.S. Treasury Bills	\$ 301,500
Savings Accounts	452,344
Cash Equivalents, reclassified above	<u>(753,844)</u>
Financial Statement Total	\$ <u>0</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 171,903	\$	\$	\$ 171,903	\$ 171,903
Petty Cash	300			300	300
Money market	753,844			753,844	753,844
C/D's	<u>90,000</u>			<u>90,000</u>	<u>90,000</u>
Total Cash	\$ <u>1,016,047</u>	\$ <u></u>	\$ <u></u>	\$ <u>1,016,047</u>	\$ <u>1,016,047</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Accounts Receivable

Tenants accounts receivable consists of the following:

Accounts Receivable- Tenants	\$ 9,903
Allowance for Doubtful Accounts	<u>(268)</u>
Net Accounts Receivable-tenants	\$ 9,635

Accounts Receivable- Other

Accounts Receivable- HUD	9,787
Accounts Receivable- Miscellaneous	<u>2,775</u>
Financial Statement Total	\$ <u>22,197</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 83,491
Inventories	139,661
Allowance for Obsolescence	<u>(2,860)</u>
Financial Statement Total	\$ <u>220,292</u>

Notes to Financial Statements- continue

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 1,798,466	\$	\$	\$ 1,798,466
Buildings	11,224,223			11,224,223
Furniture & Equipment-Dwellings	2,097,621	9,493		2,107,114
Furniture & Equipment-Admin	545,431		3,558	541,873
Leasehold Improvements	<u>14,366,209</u>	<u>697,004</u>		<u>15,063,213</u>
	\$30,031,950	\$ 706,497	\$ 3,558	\$30,734,889
Less Accumulated Depreciation	<u>17,649,433</u>	<u>1,213,967</u>		<u>18,863,400</u>
	<u>\$12,382,517</u>	<u>\$ (507,470)</u>	<u>\$ 3,558</u>	<u>\$11,871,489</u>

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits \$ 35,852

Note 7: Accounts Payable- Other Governments

Accounts Payable other governments consists of the following:

Accounts Payable- Bay City \$ 67,410

Note 8: Retirement.

The Commission is enrolled in a retirement and a deferred compensation plan, under code section 457 and section 401 of the Internal Revenue Code. The plan provides for both employee and employer contributions, and offers several alternative plans to participate in; the eligibility rules and plan assets are available under a separate report provided by the Retirement Trust. In addition to the above, the Commission has a defined benefit plan which has been frozen to current employee participation only, and not available to future employee participation.

The statistical data for that plan is as follows:

GASB 25 and 27 Information

The following information has been prepared to provide the information necessary to comply with GASB Statements N. 25 & 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

Notes to Financial Statements, continued

GASB 25 Information (as of 12/31/2005)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 2,588,627
Terminated employees (vested former members) not yet receiving benefits	0
Non-vested terminated employees (pending refunds of accumulated member contributions)	0

Current employees-

Accumulated employee contributions including allocated investment income	106,388
Employer financed	<u>2,782,168</u>

Total Actuarial Accrued Liability \$ 5,477,183

Net assets available for benefits at actuarial value 4,173,281

(Market Value is \$ 3,922,068)

Underfunded (Overfunded) actuarial accrued liability \$ 1,303,902

GASB 27 Information (as of 12/31/2005)

Fiscal year beginning October 1, 2007

Annual Required Contribution (ARC) \$ 207,852

Amortization Factor Used - Underfunded Liabilities (24 years) 0.065308

Amortization Factor Used - Underfunded Liabilities (30 years) 0.085453

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 59,540,969
General Liability	2,000,000
Dishonesty Bond	1,000,000
Worker's Compensation, auto, and other riders: Coverage's required by the State of Michigan	

Notes to Financial Statements- continued

Note 10:Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 11:Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Bay City Housing Commission

30-Sep-06

MI024

Combining Balance Sheet		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	826,272	99,775	-	926,047
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits	70,000	20,000		90,000
100	Total cash	896,272	119,775	-	1,016,047
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects	1,517			1,517
122	Accounts receivable - HUD other projects	-	-	8,270	8,270
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	-	2,775		2,775
126	Accounts receivable- tenants - dwelling rents	9,837	66		9,903
126.1	Allowance for doubtful accounts - dwelling rents	(268)	-		(268)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful account	11,086	2,841	8,270	22,197
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	72,984	10,507		83,491
143	Inventories	125,834	13,827		139,661
143.1	Allowance for obsolete inventories	(2,572)	(288)		(2,860)
144	Interprogram - due from	8,270	-	-	8,270
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	1,111,874	146,662	8,270	1,266,806
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	1,539,701	258,765		1,798,466
162	Buildings	7,533,845	3,690,378		11,224,223
163	Furniture, equipment & machinery - dwellings	1,351,406	652,188	103,520	2,107,114
164	Furniture, equipment & machinery - administrati	417,501	124,372	-	541,873
165	Leasehold improvements	11,774,604	3,197,799	90,810	15,063,213
166	Accumulated depreciation	(14,199,398)	(4,664,002)	-	(18,863,400)
160	Total fixed assets, net of accumulated depreciator	8,417,659	3,259,500	194,330	11,871,489
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	8,417,659	3,259,500	194,330	11,871,489
190	TOTAL ASSETS	9,529,533	3,406,162	202,600	13,138,295

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	56,031	18,812		74,843
313	Accounts payable > 90 days past due		-		-
321	Accrued wage/payroll taxes payable	28,384	7,468		35,852
322	Accrued compensated absences	9,031	2,547		11,578
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs	-	-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	67,410	-	-	67,410
341	Tenant security deposits	112,319	33,646		145,965
342	Deferred revenues	2,621	458		3,079
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	-			-
347	Inter-program - due to	-	-	8,270	8,270
310	TOTAL CURRENT LIABILITIES	275,796	62,931	8,270	346,997
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	-			-
350	TOTAL NONCURRENT LIABILITIES	-	-	-	-
300	TOTAL LIABILITIES	275,796	62,931	8,270	346,997
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	8,417,659	3,259,500	194,330	11,871,489
	Reserved fund balance:				-
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	836,078	83,731		919,809
513	TOTAL EQUITY	9,253,737	3,343,231	194,330	12,791,298
600	TOTAL LIABILITIES AND EQUITY	9,529,533	3,406,162	202,600	13,138,295

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Bay City Housing Commission

30-Sep-06

MI024

Combining Income Statement		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	1,185,500	427,511		1,613,011
704	Tenant revenue - other	49,734	6,528		56,262
705	Total tenant revenue	1,235,234	434,039	-	1,669,273
706	HUD PHA grants	1,120,302	750,651	273,555	2,144,508
708	Other government grants				-
711	Investment income - unrestricted	35,521	8,648	-	44,169
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	41,661	57,858	-	99,519
716	Gain or loss on the sale of fixed assets	2,366			2,366
720	Investment income - restrictec				-
700	TOTAL REVENUE	2,435,084	1,251,196	273,555	3,959,835
	EXPENSES:				
	Administrative				
911	Administrative salaries	221,541	77,626	73,433	372,600
912	Auditing fees	3,760	1,060		4,820
913	Outside management fees				-
914	Compensated absences	(162)	(46)		(208)
915	Employee benefit contributions- administrative	103,514	29,600	-	133,114
916	Other operating- administrative	72,456	21,941	-	94,397
	Tenant services				
921	Tenant services - salaries	58,248	31,046		89,294
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services	25,964	10,305		36,269
924	Tenant services - other	10,537	36,223	84,052	130,812
	Utilities				
931	Water	122,603	51,961		174,564
932	Electricity	115,838	73,145		188,983
933	Gas	131,253	98,033		229,286
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	8,855	113		8,968
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	589,499	159,998		749,497
942	Ordinary maintenance and operations - materials & other	86,716	20,124	-	106,840
943	Ordinary maintenance and operations - contract costs	184,517	73,718	44,882	303,117
945	Employee benefit contributions- ordinary maintenance	289,724	64,144		353,868
	Protective services				

952	Protective services- other contract costs	48			48
953	Protective services - other				-
955	Employee benefit contributions- protective services		-		-
	General expenses				
961	Insurance premiums	143,240	38,555		181,795
962	Other General Expenses	137,736	190,887		328,623
963	Payments in lieu of taxes	67,412			67,412
964	Bad debt - tenant rents	22,420	2,779		25,199
965	Bad debt- mortgages				-
966	Bad debt - other				-
967	Interest expense				-
968	Severance expense	-			-
969	TOTAL OPERATING EXPENSES	2,395,719	981,212	202,367	3,579,298
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	39,365	269,984	71,188	380,537
971	Extraordinary maintenance	-			-
972	Casualty losses - non-capitalized	-			-
973	Housing assistance payments		-	-	-
974	Depreciation expense	929,990	283,977	-	1,213,967
975	Fraud losses				-
976	Capital outlays- governmental funds	-			-
977	Debt principal payment- governmental funds				-
978	Dwelling units rent expense				-
900	TOTAL EXPENSES	3,325,709	1,265,189	202,367	4,793,265
	OTHER FINANCING SOURCES (USES)				
1001	Operating transfers in	-			-
1002	Operating transfers out	-		-	-
1003	Operating transfers from/to primary government			-	-
1004	Operating transfers from/to component unit				-
1005	Proceeds from notes, loans and bonds				-
1006	Proceeds from property sales				-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER ((890,625)	(13,993)	71,188	(833,430)

BAY CITY HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3017 Operating Subsidies	\$ <u>1,120,302</u>
* <u>CFDA 14.182 Housing Assistance Programs</u>	
C-3017 Section 8 New Construction	\$ <u>750,651</u>
<u>CFDA 14.872 Capital Projects Grants</u>	
C-3017 Capital Projects Funds	\$ <u>273,555</u>
	\$ <u>2,144,508</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 59,540,969
General Liability	2,000,000
Dishonesty Bond	1,000,000
Worker's Compensation, auto, and other riders: Coverage's required by the State of Michigan	

*Connotes Major Program Category

BAY CITY HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2006

The prior audit of the Bay City Housing Commission for the period ended September 30, 2005, did not contain any audit findings.

BAY CITY HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
September 30, 2006

Compliance

I have audited the compliance of Bay City Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. Bay City Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bay City Housing Commission's management. My responsibility is to express an opinion on Bay City Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay City Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Bay City Housing Commission's compliance with those requirements.

In my opinion, Bay City Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control over Compliance

The management of Bay City Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Bay City Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 26, 2007

BAY CITY HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2006

I have audited the financial statements of Bay City Housing Commission, Bay City, Michigan, as of and for the year ended September 30, 2006, and have issued my report thereon dated January 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bay City Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bay City Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Bay City Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 26, 2007

